



## Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #211

### **W-2 Agency Contracts (DCF -- Economic Support and Child Care)**

[LFB 2011-13 Budget Summary: Page 99, #2 and #3]

#### **CURRENT LAW**

The Department of Children and Families (DCF) is authorized to contract with any person to implement the Wisconsin Works (W-2) program at the local level. As of April 27, 2011, W-2 is administered at the local level as follows: (a) 37 counties are served by county human/social services agencies; (b) 34 counties outside of Milwaukee County are served by non-county agencies; and (c) six non-county agencies cover five regions in Milwaukee County.

The current W-2 agency contracts run from January 1, 2010, through December 31, 2012, and include funding for W-2 employment benefits, program services, and local administration. W-2 employment benefit funding is used for monthly grants and employer subsidies paid under subsidized W-2 employment positions, as well as caretaker of newborn infant (CNI) grants and at-risk pregnant women grants. Program services funds are used to provide services such as case management, job training, job readiness, motivation, education, and social services. Funds for administration are generally used for costs related to operation of the W-2 program, but not directly related to services delivery, such as rent, salaries, and fringe benefits for program managers, and other administrative overhead. W-2 agency contracts are funded with the temporary assistance for needy families (TANF) block grant and other TANF-related revenues.

The contract allocations under 2009 Wisconsin Act 28 (the 2009-11 biennial budget act) for the last six months of the previous W-2 agency contracts and the first 18 months of the 2010-2012 contracts included \$100.4 million in employment benefits, \$73.9 million in services funds, and \$16.5 million for administration. The last 18 months of these three-year contracts will be funded in the 2011-13 biennial budget. The next set of contracts will begin January 1, 2013. The first six months of these contracts will also be funded in the 2011-13 biennial budget.

Due to increased caseloads in the W-2 program, additional funding was reallocated to the W-2 contracts from savings in the Wisconsin Shares program, the state's child care subsidy

program. Base funding was set at \$70,516,600 for benefits, \$48,905,600 for services, and \$11,370,400 for administration.

However, on March 14, 2011, an additional \$20,351,700 in benefits and \$6,430,700 in services funding in 2010-11 was reallocated to the W-2 agency contracts from savings under the Wisconsin Shares program. In 2010-11, the W-2 benefits allocation now totals \$90,868,300, the W-2 services allocation now totals \$55,336,300, and local administration of W-2 totals \$11,370,400.

## **GOVERNOR**

Provide \$8,271,200 in 2011-12 and reduce funding by \$8,737,200 in 2012-13 for payments to W-2 participants in subsidized employment positions, trial job subsidies, caretaker of newborn infant grants, and at-risk pregnant women grants under current law. With a reduction in monthly case benefits by \$20 for participants in community service jobs, transitional placements, and technical college placements, benefits funding would total \$78,787,800 in 2011-12 and \$61,779,400 in 2012-13.

Provide \$5,940,700 in 2011-12 and reduce funding by \$3,268,600 in 2012-13 for W-2 services. Services funding would total \$54,846,300 in 2011-12 and \$45,637,000 in 2012-13.

Provide \$460,400 in 2011-12 and reduce funding by \$253,300 in 2012-13 for local administration of W-2. Funding for administration of W-2 would total \$11,830,800 in 2011-12 and \$11,117,100 in 2012-13.

The changes in funding levels under the bill reflect changes to base funding prior to the reallocation of additional funds on March 14, 2011.

## **DISCUSSION POINTS**

### **W-2 Benefits**

1. If the current monthly benefit levels were retained, the bill would allocate \$81,888,400 in 2011-12 and \$64,259,800 in 2012-13 for W-2 benefits (Alternative 1) for the last 18 months of the 2010-2012 W-2 agency contracts (July 1, 2011, through December 31, 2012) and the first six months of the next set of W-2 agency contracts (January 1, 2013, through June 30, 2013). The Governor's proposal to reduce cash benefits by \$20 per month for participants in community service jobs, transitional placements, and technical college placements is addressed in a separate paper. The bill estimates these savings at \$3,100,600 in 2011-12 and \$2,480,400 in 2012-13.

2. Compared to the current W-2 benefit allocations in 2010-11, subsequent to the additional reallocation of funds on March 14, 2011, the bill would reduce W-2 benefits funding by \$8,979,900 in 2011-12 and by \$26,608,500 in 2012-13.

3. The bill assumes that the starting W-2 caseload in July of 2011 will be 14,307 and

that the caseload would decrease by 2% each month until it reaches 8,990 in June of 2013 at the end of the 2011-13 biennium. No distinction is made among the CNI caseloads, at-risk pregnancy caseloads, and W-2 paid employment placement caseloads.

4. Under current law, caretakers of newborn infants less than 12 weeks old are eligible for a monthly grant of \$673. Unmarried women who are not custodial parents of a dependent child and are in the third trimester of a pregnancy that is medically verified and shown by medical documentation to be at risk are also eligible for a monthly grant of \$673. Persons in a community service job are eligible for a monthly grant of \$673. Persons in a transitional placement are eligible to receive a monthly grant of \$628. Finally, employers of persons in a trial job are eligible to receive reimbursement of up to \$300 per month to offset the cost of the person's wages. These amounts are maximum amounts; the actual benefits paid are generally less than the maximum because persons participate on a part-time basis or may be sanctioned for not fulfilling participation requirements.

5. Under the bill, the average monthly caseload is estimated at 12,834 families in 2011-12 and 10,070 families in 2012-13. There is no specific allocation for CNI caseloads or at-risk pregnant women caseloads. The benefit amount for all grant recipients is estimated at \$532 per month. However, the monthly caseloads of CNI grant recipients and at-risk pregnant women grant recipients typically do not vary with changes in economic conditions as much as the caseloads of the W-2 employment positions. In addition, the benefit amount is typically higher, on average, for CNI grants than those for the W-2 employment positions. Therefore, alternative estimates for W-2 benefits funding will address three separate categories of benefits: (a) CNI grants; (b) at-risk pregnant women grants; and (c) other W-2 paid employment positions.

6. Two alternative estimates would increase overall funding for W-2 benefits. The first estimate assumes that the average caseload and benefit amounts over the 2011-13 biennium would be the same as the average from January, 2010, through April, 2011. The overall caseload in January, 2010, was 9,393, but has increased to 14,767 in April, 2011. The monthly average over this time period is 12,775. Using the contract-to-date average from January, 2010, through April, 2011, assumes that the caseloads will peak and decline such that the average during the 2011-13 biennium mirrors the average thus far during the current 2010-2012 W-2 agency contracts.

7. Under the first estimate, benefits would total: (a) \$10,119,800 annually for CNI grants; (b) \$161,500 annually for at-risk pregnant women grants; and (c) \$68,661,600 annually for W-2 employment positions. For CNI grants, the average monthly caseload would be 1,519, and the average monthly benefit would be \$556. For at-risk pregnant women grants, the average monthly caseload would be 31, and the average monthly benefit would be \$432. Finally, for the W-2 employment positions, the average monthly caseload would be 11,225, and the average monthly benefit would be \$510. Total W-2 benefits would be \$78,942,900 annually.

8. Based on these revised estimates, the Committee could reduce funding by \$2,945,500 in 2011-12 and increase funding by \$14,683,100 in 2012-13 (Alternative A2). It could be assumed that the caseloads will level out to the same average that has occurred from January, 2010, through March, 2011.

9. However, compared to the current 2010-11 W-2 benefits allocation, subsequent to the reallocation of additional funds on March 14, 2011, funding would be reduced by \$11,925,400 (13.1%) annually. A reduction of that magnitude in 2011-12 may be unlikely. It may be more likely that the W-2 employment position caseloads will continue to increase for a while and then begin a slow decline. The second estimate assumes that the W-2 employment position caseloads continue to increase until the end of 2010-11, remain flat until December, 2011, and then begin to decrease at a 1% rate until June, 2012. Finally, the estimate assumes that during the last year of the biennium, the W-2 employment caseloads decrease at a rate of 2% per month.

10. Under the bill, it was anticipated that the overall W-2 caseload would peak at 14,599 in January, 2011, and remain at that same caseload until June, 2011. Caseloads would then decline at the rate of 2% per month through the 2011-13 biennium. However, the caseload in April, 2011, already exceeded that peak at 14,767.

11. As noted above, the caseload for April, 2011 was 14,767 (1,425 CNI, 31 at-pregnant women, and 13,311 W-2 employment positions). The second estimate would begin the 2011-13 biennium with an overall caseload of 15,004 (1,450 CNI, 34 at-risk pregnant women, and 13,520 W-2 employment positions), an increase of 1.6% over April caseloads. For comparison purposes, there has been a 3.1% increase in caseloads over the most recent three-month period (April over February). The estimate assumes that the total caseload would remain at 15,004 until December, 2011. The W-2 employment position caseload would then begin to decrease at a slower rate of 1% per month for the remainder of 2011-12. The total caseload in June, 2012, would be 14,213 (1,450 CNI, 34 at-risk pregnant women, and 12,729 W-2 employment positions). Finally, the estimate assumes a 2% per month reduction in the employment position caseload in 2012-13, with an ending caseload of 11,473 (1,450 CNI, 34 at-risk pregnant women, and 9,989 W-2 employment positions) in June, 2013. The CNI and at-risk pregnant women caseloads are based on the average from February, 2011, through April, 2011, and would remain unchanged throughout the 2011-13 biennium.

12. The second estimates also assume the CNI benefit would be \$581 per month, the at-risk pregnant women benefit would be \$479 per month, and the W-2 employment position benefit would be \$523 per month based on the average from February, 2011, through April, 2011, to reflect the most recent trends in the W-2 program. Under the second estimate, benefits would total: (a) \$10,101,400 annually for CNI grants; (b) \$197,400 annually for at-risk pregnant women grants; and (c) \$83,416,300 in 2011-12 and \$70,246,900 in 2012-13 for W-2 employment positions. Total W-2 benefits would be \$93,715,100 in 2011-12 and \$80,545,700 in 2012-13.

13. Based on the second set of revised estimates, the Committee could provide \$11,826,700 in 2011-12 and \$16,285,900 in 2012-13 (Alternative A3). Compared to the current amount provided in 2010-11 with the additional reallocations on March 14, 2011, this would be an increase of \$2,846,800 in 2011-12 and a reduction of \$10,322,600 in 2012-13.

### **W-2 Services**

14. Based on actual expenditures from January, 2010, through March, 2011, it is projected that annual expenditures for services would be \$43,106,900, for a total of \$3,592,200 per

month if that level of spending is maintained. The Committee could fund W-2 services based on actual expenditures from January 2010, through March, 2011, and reduce funding by \$11,739,400 in 2011-12 and by \$2,530,100 in 2012-13 (Alternative B2).

15. Alternatively, as the W-2 caseload has been increasing during the period from January, 2010, through March, 2011, it may not be an accurate reflection of the true costs of providing services to W-2 participants as the overall caseload has increased. The average from January, 2011, through March, 2011, may provide a more accurate estimate of actual costs for W-2 services. Based on this average, annual expenditures are estimated at \$46,729,300, for a total of \$3,894,100 per month if that level of spending is maintained. The Committee could fund W-2 services based on the average of the three-month period from January, 2011, through March, 2011, and decrease funding by \$8,117,000 in 2011-12 and increase funding by \$1,092,300 in 2012-13 (Alternative B3).

16. On the other hand, the Committee could approve the Governor's recommendation (Alternative B1). The Governor's recommendation provides additional funding in the first year to accommodate a higher caseload and reduces funding in the second year based on an assumption that fewer funds for services would be needed with a caseload reduction of 2% per month over the biennium. Funding for services in 2010-11 after the reallocation of additional funds on March 14, 2011, is \$55,336,300. Funding for services under the bill is more in line with the final allocation for W-2 services in 2010-11.

### **W-2 Local Administration**

17. Based on actual expenditures from January, 2010, through March, 2011, it is projected that annual administration expenditures would be \$9,576,700 (\$798,100 per month) if the current level of spending is maintained. The Committee could reduce funding by \$2,254,100 in 2011-12 and by \$1,540,400 in 2012-13 to reflect average expenditures for administration (Alternative C2).

18. Alternatively, as the W-2 caseload has been increasing during the period from January, 2010, through March, 2011, it may not be an accurate reflection of the true costs of administering W-2. The average from January, 2011, through March, 2011, may provide a more accurate estimate of actual costs for local administration of W-2. Based on this average, annual expenditures are estimated at \$10,107,200, for a total of \$842,300 per month if that level of spending is maintained. The Committee could reduce funding for local administration of W-2 by \$1,723,600 in 2011-12 and by \$1,009,900 in 2012-13 (Alternative C3).

19. On the other hand, the Committee could adopt the Governor's proposed level of funding of \$11,830,800 in 2011-12 and \$11,117,100 in 2012-13 (Alternative C1). With the increased caseload, it is possible that additional funds would be needed to administer W-2 at the local level than the monthly average that has been expended from January, 2010, through March, 2011.

## ALTERNATIVES

### A. W-2 Benefits

1. Approve the Governor's recommendation to increase funding by \$8,271,200 FED in 2011-12 and to reduce funding by \$8,737,200 FED in 2012-13 for W-2 benefits. Funding for W-2 benefits would total \$81,888,400 in 2011-12 and \$64,259,800 in 2012-13, before consideration of the proposed \$20 grant reduction.

2. Modify the Governor's recommendation to reduce funding by \$2,945,500 FED in 2011-12 and to increase funding by \$14,683,100 FED in 2012-13 to fully fund cash benefits based on: (a) an average monthly caseload of 11,225 and average monthly benefit of \$510 for W-2 employment positions; (b) an average monthly caseload of 1,519 and an average monthly benefit of \$556 for CNI grants; and (c) an average monthly caseload of 31 and an average monthly benefit of \$432 for at-risk pregnant women grants. The statutory allocation for W-2 benefits would total \$78,942,900 annually, before consideration of the proposed \$20 grant reduction.

ALT A2	Change to Bill Funding
FED	\$11,737,600

3. Modify the Governor's recommendation to increase funding by \$11,826,700 FED in 2011-12 and by \$16,285,900 FED in 2012-13 to fully fund case benefits based on: (a) an average monthly caseload of 1,450 and average monthly benefit of \$581 for CNI grants; (b) an average monthly caseload of 34 and an average monthly benefit of \$479 for at-risk pregnant grants; and (c) an average monthly caseload of 13,288 in 2011-12 and of 11,190 in 2012-13 and an average monthly benefit of \$523 for W-2 employment positions. This estimate assumes the W-2 employment position caseloads will continue to increase through 2010-11, remain flat during the first six months of 2011-12, fall at the rate of 1% per month during the second six months of 2011-12, and fall at the rate of 2% per month during 2012-13. The CNI and at-risk pregnant women caseloads would not change. The statutory allocation for W-2 benefits would total \$93,715,100 in 2011-12 and \$80,545,700 in 2012-13, before consideration of the proposed \$20 grant reduction.

ALT A3	Change to Bill Funding
FED	\$28,112,600

### B. W-2 Services

1. Approve the Governor's recommendation to increase funding by \$5,940,700 FED in 2011-12 and to reduce funding by \$3,268,600 in 2012-13 for W-2 services funding. Services funding would total \$54,846,300 in 2011-12 and \$45,637,000 in 2012-13.

2. Modify the Governor's recommendation to reduce funding by \$11,739,400 FED in

2011-12 and by \$2,530,100 FED in 2012-13 to reflect average expenditures for services from January, 2010, through March, 2011. The total statutory allocation would be \$43,106,900 annually.

<b>ALT B2</b>	<b>Change to Bill Funding</b>
FED	- \$14,269,500

3. Modify the Governor's recommendation to reduce funding by \$8,117,000 FED in 2011-12 and increase funding by \$1,092,300 FED in 2012-13 to reflect average expenditures for services from January, 2011, through March, 2011. The total statutory allocation would be \$46,729,300 annually.

<b>ALT B3</b>	<b>Change to Bill Funding</b>
FED	- \$7,024,700

### **C. W-2 Administration**

1. Approve the Governor's recommendation to increase funding by \$460,400 FED in 2011-12 and reduce funding by \$253,300 FED in 2012-13 for local administration of W-2. Funding for administration of W-2 would total \$11,830,800 in 2011-12 and \$11,117,100 in 2012-13.

2. Modify the Governor's recommendation to reduce funding by \$2,254,100 FED in 2011-12 and by \$1,540,400 FED in 2012-13 to reflect average expenditures for administration from January, 2010, through March, 2011. The total statutory allocation would be \$9,576,700 annually.

<b>ALT C2</b>	<b>Change to Bill Funding</b>
FED	- \$3,794,500

3. Modify the Governor's recommendation to reduce funding by \$1,723,600 FED in 2011-12 and by \$1,009,900 FED in 2012-13 to reflect average expenditures for administration from January, 2011, through March, 2011. The total statutory allocation would be \$10,107,200 annually.

<b>ALT C3</b>	<b>Change to Bill Funding</b>
FED	- \$2,733,500

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